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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

3 October 1983

MEMORANDUM FOR: Mr. David A. Peterson
Director
Office of Intelligence Liaison
Office of the Secretary
Department of Commerce

SUBJECT : Comments on the Reported Contract for
Sale of Soviet Ferrosilicon to the US

1. In response to your request of 16 September 1983 for our views on the sale of Soviet ferrosilicon to the US, we have prepared answers to each of your questions (see Attachment). Analysis of Soviet ferrosilicon production and trade shows that the Soviets probably contracted to sell ferrosilicon to the US as a result of large recent increases in domestic ferrosilicon production. [redacted]

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2. If we can be of any further assistance to you on this or any related matter, please contact [redacted]

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Director
Soviet Analysis

Attachments:
Q&A's
Tables (2)

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**SUBJECT: Comments on the Reported Contract for Sale of
Soviet Ferrosilicon to the US**

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Question: Why is the sale being made at this time?

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Answer: The current reported sale of ferrosilicon to the US probably is being made as a result of a domestic surplus created by a relatively large increase in Soviet ferrosilicon production capacity over the last two years. The Bureau of Mines estimates that the Soviets were the world's largest producers of ferrosilicon in 1980, producing about 695,000 short tons, which was nearly 20 percent of world production for that year. The Soviet press claims that a total of 180,000 metric tons of production capacity was added at the Yermak plant in Kazakstan in 1981 and 1982. This represents about a 25 percent increase in total Soviet ferrosilicon production capacity during the last two years.

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Question: Why is the cost of the Soviet ferrosilicon so cheap compared to that available from US and other foreign sources?

Answer: We have not been able to confirm the terms of the reported contract, nor do we know the Soviet motives for selling ferrosilicon at the reported price. Nonetheless, a limited examination of Soviet trading transactions shows that making a profit on exports is only one of several factors that determine Soviet trading motives. Other economic factors include hard currency requirements and competitive pricing to establish a market share. In any event, the Soviets have a lot of price flexibility in commodity trade when they perceive that it is to their advantage. Further, the Soviets do not generally plan domestic production levels of commodities for export in response to world market conditions.

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Question: What is the actual cost to the Soviets of the ferrosilicon?

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Answer: We have no data on the actual cost to the Soviets of producing ferrosilicon. However, as noted above, the Soviet prices of exports are not necessarily related to production costs.

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Question: Is the USSR likely to be a major ferrosilicon exporter to the US in the future? What quantities of ferrosilicon can the USSR export annually?

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Answer: The Soviets traditionally have run large trade deficits with the United States in part because of their grain purchase activities and because they have been unsuccessful in penetrating

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the US market for many types of goods. The Soviets may view the US as a potential future market for ferrosilicon and try to increase exports as a way to help reduce the trade deficit. []

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A forecast of Soviet ferrosilicon exports to the US depends on many factors including world market conditions, Soviet production and domestic consumption. Unfortunately, we do not have enough information to accurately forecast these factors. However, official Soviet trade statistics show that the Soviets have been net exporters of ferrosilicon since at least 1970 (tables 1 and 2). Based on the increased production capacity noted above, we expect Moscow will continue exporting ferrosilicon at or somewhat above current levels. []

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Question: Is SOVA aware of any other Soviet sales to the US of critical materials at below market prices? []

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Answer: []

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there are examples of the Soviets undercutting market prices of various commodities in Europe. For example, the EEC recently imposed a 7 percent duty on Soviet imports of nickel, because the Soviets were dumping large amounts of nickel on the European market. We believe that Soviet motives for undercutting European nickel prices were related to a large excess domestic supply created by an increase in domestic production capacity. In another example, from 1978 to 1981, the Soviets undercut Western coal prices when it was to their advantage. Unlike nickel, however, Soviet coal production has been a problem in the Soviet Union and the Soviets have experienced domestic shortages for several years. []

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Table 1: Reported Soviet Ferrosilicon Exports¹, 1970-82

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
World total													
Quantity (mt)	124,900	124,000	139,300	148,400	151,420	154,492	160,246						
Dollars (thous)	12,642	12,903	15,244	18,321	30,112	34,011	30,061	32,531	30,820	36,128	28,395	44,299	48,600
Rubles (thous)	11,389	11,624	12,598	13,571	22,812	24,468	22,602	23,920	20,966	23,613	18,438	31,870	35,200
I. Total Communist													
Quantity (mt)	26,700	27,200	32,600	37,059	35,235	33,508	32,932						
Dollars (thous)	2,520	2,571	3,405	4,479	5,881	5,755	5,516	5,156	6,594	11,926	7,295	13,126	13,000
Rubles (thous)	2,270	2,316	2,814	3,318	4,455	4,140	4,147	3,791	4,486	7,795	4,737	9,443	9,400
Romania													
Quantity (mt)	26,700	27,200	32,600	37,059	35,235	33,508	32,932						
Dollars (thous)	2,520	2,571	3,405	4,479	5,881	5,755	5,516	5,156	6,594	11,926	7,295	13,126	13,000
Rubles (thous)	2,270	2,316	2,814	3,318	4,455	4,140	4,147	3,791	4,486	7,795	4,737	9,443	9,400
II. Developed Countries													
Quantity (mt)	26,908	27,248	30,863	27,779	25,646	26,861	31,742						
Dollars (thous)	3,384	3,427	3,823	3,893	9,417	8,951	7,402	7,862	6,154	5,228	4,696	5,138	6,400
Rubles (thous)	3,048	3,088	2,994	2,883	7,134	6,440	5,566	5,781	4,186	3,417	3,050	3,696	4,600
Austria													
Quantity (mt)	4,239	3,155	3,668	5,066	4,084	3,235	4,798						
Dollars (thous)	581	389	593	944	1,061	1,186	1,170	1,015	1,055	894	1,383	1,322	1,800
Rubles (thous)	523	350	490	699	804	853	880	746	718	584	898	951	1,300
Australia													
Quantity (mt)					1,572								
Dollars (thous)					309								
Rubles (thous)					234								
United Kingdom													
Quantity (mt)	9,600	9,614	13,199	12,375	6,103	11,634	12,377						
Dollars (thous)	1,030	1,261	1,493	1,574	2,647	3,859	2,643	2,462	2,256	1,143	156		
Rubles (thous)	928	1,136	1,234	1,166	2,005	2,776	1,987	1,810	1,535	747	101		
West Germany													
Quantity (mt)	9,500	10,200	8,600	7,085	10,074	8,294	10,647						
Dollars (thous)	1,371	1,215	846	921	4,244	2,659	2,568	2,656	2,173	1,016	420	2,252	2,500
Rubles (thous)	1,235	1,095	699	682	3,215	1,913	1,931	1,953	1,478	664	273	1,620	1,800
Finland													
Quantity (mt)	3,569	4,279	5,396	3,253	3,813	3,698	3,920						
Dollars (thous)	402	563	691	454	1,156	1,248	1,021	1,730	669	2,176	2,738	1,564	2,100
Rubles (thous)	362	507	571	336	876	898	768	1,272	455	1,422	1,778	1,125	1,500

¹ Ruble and quantity values are from official Soviet trade statistics; the Soviets stopped publishing ferrosilicon trade quantities after 1976. The dollar figures cited were calculated by multiplying published Soviet ruble trade data values by the ruble-dollar exchange rate for each year. Thus, ruble and dollar figures are not adjusted for inflation.

ATTACHMENT

Table 2: Reported Soviet Ferrosilicon Imports, 1970-1982¹

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
World Total													
Dollars (thous)	105	316	294	292	355	409	469	290	951	958	876	831	not reported
Rubles (thous)	95	285	243	216	269	294	353	213	647	626	569	598	not reported

¹ Ruble values are from official Soviet trade statistics; the dollar figures cited were calculated by multiplying published Soviet ruble trade data values by the ruble-dollar exchange rate for each year. Ruble and dollar figures are not adjusted for inflation.

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